Public Meeting Regarding Blue Cross of California

Los Angeles, CA

August 7, 2007

Change of Control of Blue Cross of California

The merger between WellPoint and Anthem was completed on November 30, 2004.

Under the Knox-Keene Act, the DMHC's review of the merger was limited to ensuring that Blue Cross of California would remain capable of providing access to health care for California enrollees.

Blue Cross
Major Commitments

As part of its review of the merger, the DMHC successfully negotiated commitments (Undertakings) from Blue Cross to provide significant consumer protections:

I. Ensure that adequate premium dollars were spent on direct health care services.

II. Ensure access to and quality of care for California enrollees.

III. Ensure that Californians benefit from the merger.

Why Be Concerned?

At the time of the merger, Blue Cross publicly stated that the transaction would allow the company to better serve California enrollees and health care consumers.

However, since the merger, the DMHC has received 4,149 calls and complaints from health care providers and consumers about changes in Blue Cross benefits, reimbursement rates, and premium increases.

Excerpts From Public Comments

- Although I am a physician, I am increasingly frustrated and powerless to cope with Blue Cross' denial of just about each and every medical bill incurred by myself or my wife. How much more painful and frustrating must it be for individuals without a medical background who must struggle with this mean-spirited corporation?

- When I came to my doctor, I had stage 4 cancer. He was able to treat me with cutting edge medications... But right now I am scared to death. I have not received regular treatments in a month now, because Blue Cross is not covering them.

I. Ensure that adequate premium dollars were spent on direct health care services

The DMHC's overarching goal was to protect California consumers by ensuring that Blue Cross would remain capable of providing services to Californians and that their premium dollars would not be used for merger costs and other parent company corporate acquisitions.

Excerpts From Public Comments

- It is unfair to the consumer to have to bridge the gap with additional out-of-pocket expenses and it is unfair that Blue Cross can make obscene amounts of profit at the expense of subscribers.

- It is outrageous that I'm being financially punished for a decision I made to safeguard my health by going to the emergency room. I shouldn't have to choose between my well-being and my wallet.

Dividends

2005- $518 million

2006- $537 million

2007- $950 million

Excerpts From Public Comments

- The proposed (fee) cuts by Blue Cross will drive my cardiologist and family doctors out of their system. When I read that Blue Cross sent $950 million to WellPoint, it seems like California health care premiums are going to merger and excessive executive compensation and not policyholders and doctors. We are being victimized for the corporate merger.

- Despite a $950 million payout to WellPoint and yearly increases in premiums with decreases in coverage, Blue Cross is cutting reimbursement for cancer care to below drug acquisition cost on 80% of chemotherapy...Please intervene and stop Blue Cross.

Dividends

One goal of the Undertakings was to ensure that premium dollars remained in California for the benefit of consumers and were not used to pay costs and executive compensation associated with the merger.

- Why did Blue Cross declare a significantly higher dividend to its out-of-state parent in 2007 compared to those in 2005 and 2006?
- Based on projected earnings growth, does Blue Cross expect to increase dividends?

II. Ensure Access to Quality Care for California Enrollees

One of the DMHC's goals was to ensure that subscribers and enrollees would continue to have access to quality care and that access would not diminish as a result of the merger.

To Improve Access, Blue Cross Agreed To:

- Continue to maintain all critical delivery systems, including key decision-making functions, in California.
- Invest 2% of the 2005 investment portfolio to improve access to care in rural and underserved communities, with the initial commitment of $100 million to be re-invested for 20 years.
- Invest $15 million over three years in outreach efforts to increase enrollment in the Healthy Families Program and Medi-Cal.

To Improve Quality, Blue Cross Agreed To:

- Implement a Patient Advocate Improvement Program to launch new healthcare initiatives.
- Continually improve clinical quality scores.
- Invest at least an additional $17 million in areas that include mental health, childhood obesity, and quality physician standards.

Blue Cross Quality Achievements

- Recently improved quality-of-care ratings in the Office of the Patient Advocate's HMO Report Card.
- Made investments in quality improvements and pay-for-performance.
- Improved in asthma management -- appropriate medication ratings increased from a low of 63% in 2005 to 96% in 2007.
- Invested $175 million to benefit underserved communities.

Access to Care

Blue Cross committed to continue its historic role in serving the California marketplace, and its same marketplace approach.

Relevant conditions include:

- Scope and nature of services.
- Adequacy of provider network.
- Provider compensation.

Provider Reimbursement

The DMHC has received many complaints about low Blue Cross reimbursement levels and its recent reduction in PPO fee reimbursement rates for selected procedures.

- Has Blue Cross changed its marketplace approach in California by making changes in its provider reimbursement rates?
- Historically, Blue Cross has been the only plan in many rural areas of California. If providers leave the network because of low reimbursement, how will Blue Cross enrollees get care?

Excerpts from Public Comments

- My doctors have opted out of Blue Cross. My fear is that more competent and skilled doctors will opt out leaving seniors like me with continuing medical problems without any recourse.
- They (Blue Cross) are the only game in town – we have no other choice if we want to stay with our own doctor. Californians are going broke because of this HUGE profit company and now they want doctors to go broke.

Provider Contracts

The DMHC has received complaints that Blue Cross is imposing restrictions that potentially create inequitable bargaining positions. For example, it requires all providers and their consultants to sign confidentiality agreements before entering into contract negotiations. The provider community has objected, saying that the agreement limits who may represent the provider in contract negotiations.

- Why has this policy been adopted? What other contracting policy changes has Blue Cross implemented?
- Have Blue Cross' changes in contracting policies resulted in providers leaving the Blue Cross network, thus reducing access for enrollees?

Provider Termination of Contracts

In the first six months of 2007, the DMHC has already received 85% more Blue Cross provider termination requests than in all of 2005. They are projected to nearly **double** the number received in 2006.

- Why are so many providers threatening to leave the Blue Cross network since the merger?

- What does the Blue Cross network look like today as compared to before the merger?

Excerpts from Public Comments

- …my wife received a letter from her primary care physician that she had a close relationship with...stating that they would no longer accept Blue Cross. My wife was upset because she has a number of medical issues, and it is not in her best interests to start over with another primary care physician.

- I am de-contracting with Blue Cross and you know what the sad thing is...only the patients really suffer.

III. Ensure that Californians benefit from the merger

One of DMHC’s goals was to ensure that subscribers and enrollees would benefit from the merger.

Value of the Merger

"This merger creates the nation's leading health benefits company and provides us the opportunity to offer more value to our members, employers, physicians and hospitals. We look forward to building upon our current focus on improving the health of the people we serve while delivering affordable products and distinctive service to our customers."

Larry Glasscock, former president and CEO of WellPoint, Inc., November 30, 2004

- Since the merger, what "affordable products and distinctive service" has Blue Cross developed for its California members?

- What affordable new programs and products does Blue Cross envision in 2008?

Value of the Merger

On November 30, 2004, when the transaction closed, WellPoint announced that "[a]pproximately $150 million in synergies are expected to be realized in 2005 and at least $250 million in annual synergies are expected to be realized thereafter."

WellPoint Press Release, November 30, 2004

- How many of these savings have been realized and how have Californians benefited?

Value of the Merger

The premium levels of existing products are increasing, causing both small and large employers to migrate toward high deductible products with fewer benefits.

- Why is it necessary to reduce benefits and provider reimbursement rates, while at the same time increasing the flow of money out of California through dividend increases?

- How is Blue Cross going to make products more affordable without reducing the level of benefit?

Excerpts from Public Comments

- Subscribers and their employers will pay higher prices to get the insurance in the first place and then users...will be forced to pay more out-of-pocket costs to their doctors so Blue Cross can pay high dividends to their stockholders and outrageous salaries to their executives.

- What other industry is allowed to arbitrarily increase rates by 20%?…Are their costs truly 20% higher? Why don’t they cut their advertising budget or their dividend?

Excerpts From Public Comments

Blue Cross members since 1988

"We have been going to the same doctors for twenty years. Over time, almost all have become dissatisfied and left the Blue Cross network. These are our doctors, they know us, and we have valuable relationships with them – we want to continue to be their patients. Therefore, in addition to steadily increasing premiums and huge deductibles, we must also pay a large part of the cost of going to see the doctors that we know and trust."